THE PEW CHARITABLE TRUSTS

The Honorable Kevin Brady
Chair
Energy Tax Reform Working Group
United States House of Representatives
Washington, D.C. 20515

The Honorable Mike Thompson
Vice Chair
Energy Tax Reform Working Group
United States House of Representatives
Washington, DC 20515

April 15, 2013

Dear Representatives Brady and Thompson:

As the House Committee on Ways and Means considers tax reform legislation, the Pew Charitable Trusts appreciates the opportunity to provide comment on policies that can promote investment and job creation in the clean energy economy, which has expanded significantly in recent years, both in the United States and around the globe. Pew's research and engagement with entrepreneurs, financiers, manufacturers, and users of clean energy indicates that consistent, transparent policy is critical as this sector to continue to grow. With policy certainty, businesses can confidently increase investment, create jobs, and strengthen U.S. energy security. As the Committee considers tax reform, t**he Pew Charitable Trusts urges adoption of long-term tax policies that will encourage private sector investment and additional deployment of clean and efficient energy.**

The clean energy sector represents one of the fastest growing industries globally, with investment increasing more than 600 percent between 2004 and 2011 (excluding research and development), according to Pew's research partner, Bloomberg New Energy Finance. In 2011, more than $263 billion was invested in the sector and the United States regained the global lead with more than $48 billion of investment, but data indicates that the U.S. did not hold that lead in 2012. In order for the U.S. to retake the global lead in clean energy amidst fierce competition, investors must have policy certainty at the federal level.

Clean energy investment presents businesses with new market opportunities, both domestically and in developing nations, the latter of which will account for 80 percent of new energy demand by 2035. Pew research indicates that clean electricity represents a $1.9 trillion global opportunity between 2012 and 2018. Further, by 2030 industrial energy efficiency gains can deploy $234 billion in new investment and advanced batteries can grow to a $100 billion annual sector.

For U.S. businesses to capture these market opportunities, Pew supports strengthening, adopting, and renewing the following tax policies in legislation this year:

Strengthen existing policies

- **Improve the Industrial Energy Efficiency Investment Tax Credit (ITC)**. Significantly increasing industrial energy efficiency can strengthen the U.S. manufacturing base by creating up to one million highly skilled jobs and attracting nearly $234 billion in private investment according to two studies by the Department of Energy and the Oak Ridge National Laboratory. Further, industrial efficiency technologies including combined heat and power demonstrated significant grid resiliency benefits during major disasters, including the 2003 blackout and Hurricanes Katrina and Sandy. Despite these benefits, the existing ITC for these efficient power generating systems is too narrow. The ITC should be

increased from 10 to 30 percent, altered to include waste heat recovery technology, the current 50 megawatt (MW) size limitation should be removed and the credit should be applied to a project's first 25 MW rather than the first 15 MW, as is currently the case.

- **Provide a multi-year extension of the Section 45 Renewable Energy Production Tax Credit (PTC).** This provision has been a critical tool to support investments in renewable energy. The credit received a one year extension through 2013, but the uncertainty of the PTC's future has already resulted in a sharp drop in investments in wind energy production, threatening more than 78,000 workers in wind-supported jobs in nearly every state. When Congress has allowed the PTC to expire in the past, wind installations dropped between 73 and 93 percent. Congress should enact a multi-year extension of this incentive which provides certainty to industry and will ensure continued growth in clean energy industries.

- **Maintain the Investment Tax Credit for Clean Energy Technologies.** Businesses can access a tax credit when they invest in certain clean energy technologies through 2016. The solar sector has grown significantly in the United States in recent years, and helped the U.S. achieve a $1.63 billion clean energy trade surplus with China in 2011. The ITC is a key driver of U.S. leadership in clean energy, and should be maintained if the U.S. is to continue to innovate and export to growing markets overseas.

- **Protect the Section 30D Credit for purchase of a Plug-In Electric Drive Vehicle.** The Section 30D plug-in electric drive vehicle credit is a scalable incentive that rewards displacement of oil and utilization of advanced technologies. The credit phases out as the market grows and manufacturers capture efficiencies of commercial scale production. The credit was created with bipartisan and bicameral support in 2008 and revised in 2009. The plug-in electric vehicle sector has grown significantly in the United States and surpassed 52,000 units sold in 2012 alone. Pike Research has estimated that plug-in electric vehicle sales could reach three million in the U.S. and five million in China by 2020. As this sector is still relatively new, there is an opportunity for U.S. businesses to capture a significant portion of this growing global market.

- **Extend the Section 30C credit for alternative fuel vehicle refueling property**. This incentive provides a tax credit for investing in alternative fuel infrastructure. The credit was recently extended through 2013, and is available for infrastructure deployed in business or residential settings. The 30C credit is technology neutral, and supports numerous fuels that can reduce U.S. dependence on petroleum.

Proposed policies

- **Expand Master Limited Partnership eligibility to clean energy technologies.** For three decades, fossil fuel projects have used master limited partnerships (MLPs) to raise capital from smaller investors in public markets, which allows these projects to access broad pools of financing at low cost. MLPs have grown into a $370 billion sector, and some clean energy businesses estimate that MLP eligibility could lower project financing costs by up to 50 percent. MLPs have bipartisan support in both chambers in Congress, and can level the policy playing field for all energy technologies.

- **Allow energy storage technologies to qualify for the existing investment tax credit.** Traditional energy systems can be highly inefficient – typical electricity generation is only 33 percent efficient. Deployment of energy storage technologies can help all resources – whether renewable or traditional – run more smoothly. Bipartisan legislation in the House of Representatives would expand eligibility for the investment tax credit to energy storage technologies, which can strengthen grid resiliency in

addition to increasing efficiency. Energy storage systems can limit the impact of future disasters by ensuring that homes and businesses have access to backup power during an outage.

Renew expired policies

- **Extend the expired Section 30B Credits for Hybrid Medium and Heavy-Duty Trucks.** Hybrid and electric drive technologies are ripe for deployment in medium and heavy-duty trucks, especially those in stop-and-go urban, port and industrial sites. Hybrid and electric drives can increase fuel efficiency in trucks from 20 to more than 50 percent, yet the incentives for producing and deploying them expired in 2011. Medium and heavy duty vehicles are second only to automobiles in oil consumption and they are responsible for 20 percent of U.S. transportation-based greenhouse gas emissions. These incentives will help reduce our dependence on foreign oil, accelerate the development and deployment of more efficient and cleaner vehicles and help create domestic jobs.

- **Provide additional access to the Section 48C Advanced Energy Manufacturing Tax Credit.** This program leveraged $5.4 billion in vital private investments in new, expanded, or re-equipped clean energy manufacturing projects throughout the country in recent years, boosting growth and creating thousands of new U.S. manufacturing jobs by producing components and equipment for the burgeoning global clean energy industry. Congress should reinstate the Section 48C tax credit so that we can continue to grow our domestic energy industry from the beginning to the end of the supply chain and increase export opportunities as nations including China and India continue to in clean energy.

- **Extend the Section 1603 Treasury Grant Program for Renewable Energy Projects.** This program played a vital role in renewable energy deployment, but expired in 2011. The program leveraged over $22.8 billion in private sector investment to support about 22,000 projects in more than a dozen clean energy industries in all 50 states. According to a study by the U.S. Partnership for Renewable Energy Finance (a non-partisan educational program for policymakers), the Section 1603 program generated over 115,000 jobs.

Pew urges Congress to act on these important tax measures so that the United States can attract private investment in the growing clean energy sector, create jobs, and improve our nation's energy security. If you have any questions, please contact Geoffrey Brown, Government Relations, at [redacted] or [redacted] Thank you for your consideration.

Sincerely,

Phyllis Cuttino
Director, Pew Clean Energy Program